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Message Text

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ACTION EB-04

INFO OCT-01 ISO-00 SS-04 NSC-04 NSCE-00 INR-01 CIAE-00

EUR-03 TRSE-00 FRB-01 /018 W
---------- 126974
R 211619Z MAY 75
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0256
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION OECD PARIS
USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 08203

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: XGDS-1
TAGS: EFIN, GW
SUBJECT: EC FINANCE MINISTERS" MEETING

1. SUMMARY. FINANCE MINISTRY POLICY LEVEL OFFICIALS HAVE GIVEN THE FINANCIAL ATTACHE A CONFIDENTIAL RUNDOWN ON THE MAY 20 EC FINANCE MINISTRY MEETING (ESSENTIAL THAT YOU STRICTLY PROTECT AND DO NOT REVEAL GERMAN POSITIONS TO FOREIGN OFFICIALS). AT MEETING FOURCADE INDICATED INABILITY TO TAKE A POSITION ON ANY OF THE OUTSTANDING IMF ISSUES, THUS STALLING EC PREPARATIONS FOR IMF INTERIM COMMITTEE MEETING. FOURCADE POSED FOUR "QUESTIONS" TO BE ANSWERED PRIOR TO FRENCH REJOINING OF SNAKE, INCLUDING PROPOSAL FOR A JOINT DOLLAR INTERVENTION POLICY WHICH IS NOT ACCEPTABLE TO GERMAN MINISTRY OF FINANCE (BUT HAS NOT YET BEEN DISCUSSED WITH THE CHANCELLOR). FOURCADE ALSO POSED A NUMBER OF ADDITIONAL QUESTIONS
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TO BE STUDIED AFTER FRENCH HAVE REJOINED THE SNAKE.

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THESE INCLUDE MOST OF THE OLD FRENCH PROPOSALS. MOST ARE NOT ACCEPTABLE TO THE GERMANS--AT LEAST AT THE OFFICIAL LEVEL. END SUMMARY.

2. FRENCH FINANCE MINISTER FOURCADE INFORMED HIS COLLEAGUES AT THE MAY 20 EC FINANCE MINISTERS MEETING THAT HE WAS UNABLE TO TAKE ANY POSITION OR ENTER INTO DISCUSSION ON ANY OF THE IMF ISSUES COMING UP IN THE JUNE IMF INTERIM COMMITTEE MEETING (IMF QUOTAS, GOLD, IMF AMENDMENTS, ETC.) SINCE THE FRENCH POSITION ON ALL OF THESE HAD YET TO BE DETERMINED BY THE FRENCH CABINET. GERMAN OFFICIALS INTERPRET THIS TO MEAN THAT GISCARD HAS RESERVED THESE DECISIONS FOR HIMSELF. IN THE VIEW OF THE ABSENCE OF ANY FRENCH FLEXIBILITY IN EC PREPARATIONS FOR THE MEETING, THEY ARE CONCERNED WHETHER THE INTERIM COMMITTEE WILL BE ABLE TO RESOLVE ANY OF THESE QUESTIONS.

3. ACCORDING TO GERMAN OFFICIALS, FOURCADE'S PAPER ON FRENCH RE-ENTRY INTO THE EC SNAKE IS DIVIDED INTO TWO PARTS. THE FIRST PART CONTAINS "QUESTIONS ON WHICH FRANCE DESIRED ANSWERS PRIOR TO REJOINING THE SNAKE AND ON WHICH IT HOPES TO RECEIVE A REPLY DURING THE JUNE 16 EC FINANCE MINISTERS MEETING. BUNDESBANK PRESIDENT KLASEN IS HEADING A CENTRAL BANK GOVERNORS WORKING GROUP TO LOOK INTO THESE QUESTIONS. THE FRENCH PROPOSALS INVOLVED ARE THE FOLLOWING:

(A) A PROVISION THAT SNAKE COUNTRIES MAY INTERVENE IN DOLLARS PRIOR TO THEIR CURRENCIES HAVING REACHED THE SNAKE BORDERS. (WHILE THE ORIGINAL SNAKE AGREEMENT PROVIDED FOR INTERVENTION AT THE BORDERS AND IN COMMUNITY CURRENCIES ONLY, DOLLAR INTERVENTION NOW IN FACT IS POSSIBLE IN ANY CASE AND--SUBJECT TO CONSULTATION--EVEN BY CURRENCIES NOT ON THE SNAKE BORDERS. THE GERMANS PRESUME THAT THE PROPOSAL IS DESIGNED TO ENCOURAGE STRONG CURRENCIES TO INTERVENE IN DOLLARS TO PREVENT THE SNAKE AS A WHOLE FROM APPRECIATING TOO MUCH AGAINST THE DOLLAR. SINCE THE FRENCH PROPOSAL IS PERMISSIVE RATHER THAN MANDATORY, CONFIDENTIAL

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HOWEVER, THE GERMANS SEE NO GREAT DIFFICULTY IN ACCEPTING IT.)

(B) A PROPOSAL FOR A JOINT DOLLAR INTERVENTION POLICY BY ALL SNAKE COUNTRIES TO MAINTAIN A DESIRED (BUT CHANGEABLE) SNAKE/DOLLAR RELATIONSHIP. (FINANCE MINISTRY OFFICIALS TELLS US THAT THEY--AND FINANCE MINISTER APEL-- ARE STRONGLY OPPOSED TO THIS.

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WHILE THEY BELIEVE THAT CHANCELLOR SCHMIDT WILL BACK
THEM IN A REFUSAL TO GO ALONG WITH THIS PROPOSAL IF
GISCARD SHOULD PRESS THE CHANCELLOR DIRECTLY, THE
ISSUE HAS NOT YET BEEN RAISED WITH SCHMIDT.)

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ACTION EB-04

INFO OCT-01 ISO-00 SS-04 NSC-04 INR-01 CIAE-00 EUR-03

TRSE-00 FRB-01 NSCE-00 /018 W
---------- 127086
R 211619Z MAY 75
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0257
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION OECD PARIS
USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 02 OF 02 BONN 08203

LIMDIS GREENBACK

(C) A PROPOSAL TO DOUBLE TO 6 MONTHS THE PERIOD
FOR WHICH EC SHORT-TERM FINANCIAL ASSISTANCE WILL BE
GRANTED PRACTICALLY AUTOMATICALLY IN SNAKE INTERVENTION
SETTLEMENTS. AFTER THAT EC SHORT-TERM ASSISTANCE IS
PROPOSED TO BE RENEWABLE FOR ANOTHER 3 MONTHS SUBJECT
TO "INTENSIVE" CONSULTATIONS, PARTICULARLY BETWEEN
THE COUNTRIES WITH THE STRONGEST AND WEAKEST CURRENCIES
IN THE SNAKE. (THE PRELIMINARY GERMAN FINANCE MINISTRY
REACTION IS THAT THEY COULD ACCEPT THIS PROPOSAL, IF
NECESSARY.)

(D) A PROVISION THAT DEBTS BETWEEN SNAKE COUNTRY
CENTRAL BANKS DUE TO SNAKE INTERVENTIONS CAN BE SETTLED
IN ANY FOREIGN EXCHANGE ASSETS RATHER THAN IN A

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PACKAGE CONSISTING OF GOLD AND FOREIGN EXCHANGE IN THE PROPORTION IN WHICH THE DEBTOR IS HOLDING ITS RESERVES, AS HAD BEEN PROVIDED FOR IN THE ORIGINAL SNAKE AGREEMENTS. (GERMAN FINANCE MINISTRY OFFICIALS DO NOT BELIEVE THAT THE FRG WILL HAVE GREAT DIFFICULTY IN ACCEPTING THIS PROPOSAL.)
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4. GERMAN OFFICIALS DO NOT KNOW IF FRANCE WILL REJOIN THE SNAKE IN FACE OF A NEGATIVE OR NON-COMMITTAL ANSWER ON JUNE 16TH TO SOME (AND PARTICULARLY (B)) OF THE ABOVE "QUESTIONS" OR PROPOSALS. IN ADDITION TO THE PROPOSALS DISCUSSED ABOVE, FOURCADE'S PAPER CONTAINS A FURTHER LIST OF "QUESTIONS" OR PROPOSALS TO BE DISCUSSED ONCE THE FRENCH ARE BACK IN THE SNAKE. FINANCE MINISTRY OFFICIALS TELL US THESE CONSIST OF ALL THE OLD FRENCH PROPOSALS SUCH AS (A) INCREASING THE AMOUNT AVAILABLE FOR EC SHORT-TERM ASSISTANCE, (B) PUTTING THE SNAKE BACK INTO A DISJOINTED TUNNEL AGAINST THE DOLLAR (I.E., A TUNNEL WHICH CAN BE MOVED UP OR DOWN FROM TIME TO TIME BY JOINT DECISION OF THE SNAKE COUNTRIES), (C) SOFTENING THE SNAKE BY ALLOWING MEMBER CURRENCIES TO TEMPORARILY BREAK OUT OF IT, ETC.

5. GERMAN OFFICIALS ARE BASICALLY NEGATIVE ON PRACTICALLY ALL OF THIS SECOND SET OF FRENCH PROPOSALS. FOR THE TIME BEING THEY ARE FOCUSING ON THE FIRST SET HOWEVER.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING AGENDA, FINANCIAL STABILITY, MINISTERIAL MEETINGS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN08203
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D750180-1080
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750529/aaaaazkx.tel
Line Count: 204
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2003 by IzenbeI0>; APPROVED <03 OCT 2003 by ElyME>
Review Markings:

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05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EC FINANCE MINISTERS" MEETING
TAGS: EFIN, GE, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006